



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
OWSLEY COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES AND
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES**

August 8, 2000

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EXECUTIVE SUMMARY

OWSLEY COUNTY PAUL SHORT, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES AND UNMINED COAL TAXES

The Owsley County Sheriff collected \$590,815 in property taxes and distributed \$566,673 to the districts. The Sheriff's commission for these collections was \$25,008, which was paid to the Sheriff's fee account for expenses of operating his office. There is a net amount of \$572 due to the Sheriff's 1999 tax account, which resulted from net overpayments to the taxing districts. The Sheriff has an unexplained surplus of \$532 in the 1999 tax account. We recommend that an escrow account be set-up for this surplus money. The audit of the Owsley County Sheriff's 1999 taxes revealed the following areas of noncompliance and internal control weaknesses:

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Have Published The Sheriff's Annual Settlement
- The Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

Kevin Flanery, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Jimmie W. Herald, Owsley County Judge/Executive

Honorable Paul Short, Owsley County Sheriff

Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the Owsley County Sheriff's Settlement - 1999 Taxes and the Sheriff's Settlement - 1999 Unmined Coal Taxes as of August 8, 2000. These tax settlements are the responsibility of the Owsley County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principals.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Owsley County Sheriff's taxes charged, credited, and paid as of August 8, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Jimmie W. Herald, Owsley County Judge/Executive
Honorable Paul Short, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Have Published The Sheriff's Annual Settlement
- The Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

In accordance with Government Auditing Standards, we have also issued a report dated November 20, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 20, 2000

OWSLEY COUNTY
PAUL SHORT, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

August 8, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 84,164	\$ 121,577	\$ 221,285	\$ 69,979
Tangible Personal Property	3,686	5,989	9,759	7,533
Intangible Personal Property				984
Fire Protection	1,945			
Franchise Corporation	23,930	30,030	63,335	
Undeveloped Gas And Oil				
Assessments	49	64	128	42
Penalties	1,091	1,474	2,825	901
Adjusted to Sheriff's Receipt	(3)		(9)	(9)
Gross Chargeable to Sheriff	<u>\$ 114,862</u>	<u>\$ 159,134</u>	<u>\$ 297,323</u>	<u>\$ 79,430</u>
<u>Credits</u>				
Discounts	\$ 1,071	\$ 1,556	\$ 2,748	\$ 919
Exonerations	2,388	3,176	6,261	2,253
Delinquents:				
Real Estate	6,785	9,144	17,147	5,423
Tangible Personal Property	84	93	222	211
Intangible Personal Property				453
Total Credits	<u>\$ 10,328</u>	<u>\$ 13,969</u>	<u>\$ 26,378</u>	<u>\$ 9,259</u>
Net Tax Yield	\$ 104,534	\$ 145,165	\$ 270,945	\$ 70,171
Less: Commissions *	<u>4,730</u>	<u>6,170</u>	<u>10,838</u>	<u>3,270</u>
Net Taxes Due	\$ 99,804	\$ 138,995	\$ 260,107	\$ 66,901
Taxes Paid	100,429	138,202	260,689	67,353
Refunds (Current and Prior Year)	<u>152</u>	<u>177</u>	<u>401</u>	<u>219</u>
Taxes Due Districts	\$ (777)	\$ 616	\$ (983)	\$ (671)
Collected Per Settlement	<u>586</u>	<u>404</u>	<u>726</u>	<u>671</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (191)</u>	<u>\$ 1,020</u>	<u>\$ (257)</u>	<u>\$ 0</u>

* and ** See Page 4

OWSLEY COUNTY
 PAUL SHORT, SHERIFF
 SHERIFF'S SETTLEMENT - 1999 TAXES
 August 8, 2000
 (Continued)

* Commissions:

10% on \$ 10,000

4.25% on \$ 309,870

4% on \$ 270,945

** Special Taxing Districts:

Library District	\$	(27)
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Health District		(14)
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Extension District		941
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Soil District		80
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City of Booneville		40
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Due Districts or (Refunds Due Sheriff)	\$	<u>1,020</u>
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The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
PAUL SHORT, SHERIFF
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

August 8, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 8	\$ 11	\$ 22	\$ 7
<u>Credits</u>				
Delinquents	\$ 8	\$ 11	\$ 22	\$ 7
Net Tax Yield	\$ 0	\$ 0	\$ 0	\$ 0
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

OWSLEY COUNTY
NOTES TO THE FINANCIAL STATEMENTS

August 8, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

B. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff met the requirements stated above, and as of August 8, 2000, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 1999 through May 25, 2000.

OWSLEY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
August 8, 2000

Note 3. (Continued)

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 16, 1999 through May 25, 2000.

Note 4. Interest Income

The Owsley County Sheriff earned \$812 as interest income on 1999 taxes. The Sheriff distributed \$214 to the school district. The Sheriff owes an additional \$145 to the school district, as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$532 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
PAUL SHORT, SHERIFF
COMMENTS AND RECOMMENDATIONS

August 8, 2000

STATE LAWS AND REGULATIONS:

1) The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$195,008; FDIC insurance of \$100,000; and securities pledged of \$470,000 as of December 22, 1999. Even though the Sheriff obtained pledged securities of \$470,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

We will get a new one signed by the Sheriff and the bank.

2) The Sheriff Should Have Published The Sheriff's Annual Settlement

The Sheriff did not publish his annual settlement with the fiscal court. KRS 134.310 Chapter 424 requires the settlement to be published. The report of the settlement shall be subject to objections by the sheriff or by the county attorney, who shall represent the state and county, and the county judge/executive shall determine objections. Objections shall be submitted to the county judge/executive within (15) days of the filing of the settlement in the Clerk's office. If no objections are submitted, the settlement will become final.

Sheriff's Response:

We did not know about this but will publish in the future.

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

The Sheriff did not follow proper accounting procedures or maintain proper accounting records as evidenced by the following deficiencies:

- A) The tax account was not reconciled to the official bank account on a monthly basis.
- B) Not all monthly tax reports were intact and otherwise available at the inception of the audit.
- C) The tax settlement was not presented to the fiscal court until after the beginning of the audit.

Sheriff's Response:

The Sheriff concurs with the auditor's recommendation.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Jimmie W. Herald, Owsley County Judge/Executive
Honorable Paul Short, Owsley County Sheriff
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Owsley County Sheriff's Settlement - 1999 Taxes and Sheriff's Settlement - 1999 Unmined Coal Taxes as of August 8, 2000, and have issued our report thereon dated November 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comment and recommendation.

- The Sheriff Should Have Published The Sheriff's Annual Settlement

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

Honorable Jimmie W. Herald, Owsley County Judge/Executive
Honorable Paul Short, Owsley County Sheriff
Members of the Owsley County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Sheriff Should Implement Proper Accounting Procedures And Maintain Proper Accounting Records

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 20, 2000

